VZCZCXRO2366
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHSK #0172/01 0720829
ZNY CCCCC ZZH
P 120829Z MAR 08
FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC PRIORITY 7007
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHVEN/USMISSION USOSCE 1869
RHMFISS/HQ USEUCOM VAIHINGEN GE
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000172

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/11/2018
TAGS: PGOV PINR ECON EFIN IBRD EBRD BO
SUBJECT: NO IMMINENT ECONOMIC CRASH IN BELARUS - IFI OFFICIALS

REF: A. 07 MINSK 1020
¶B. MINSK 133
¶C. 07 MINSK 1061

Classified By: DCM Jonathan Moore for reason 1.4 (d).

Summary

¶1. (C) World Bank Regional Director for Belarus, Ukraine and Moldova Paul Birmingham told representatives of Minsk's diplomatic corps March 10 that he sees little likelihood of an economic crisis in Belarus in the short term. Birmingham noted that the Belarusian authorities had managed to weather the storm of Russian gas price increases in 2007, even if the credits and privatizations they had used to survive were less than transparent. He described the Bank's loans to Belarus as well as marginal improvements in transparency and business climate here. Birmingham predicted strong growth in 2008, and inflation in the low double digits, but pointed to the possibility of additional inflationary pressure, if the government addresses higher food prices through wage increases. In a separate meeting, EBRD Country Director for Belarus Michael Davey reported on progress of the EBRD's micro-lending programs in Belarus. End summary.

Fundamentals of Belarus' Economy Stable - WB Official
--- --------

¶2. (C) In a briefing for members of the diplomatic corps in Minsk, visiting World Bank Regional Director for Belarus, Ukraine and Moldova Paul Birmingham said that, unlike in years past, his institution saw no reason to expect an imminent crisis in either Belarus' economy or its public finances. Birmingham said he expected strong GDP growth, about seven per cent in 2008, and said that Belarus' foreign trade growth in the recent past had been "phenomenal," with trade with Russia and with EU countries each making up roughly 40 per cent. He added that Belarus' hard currency reserves were strengthening and that he saw no reason to expect a devaluation of the Belarusian ruble in the near term.

¶3. (C) Addressing the effect of rising prices for Russian natural gas, Birmingham said that Belarus had survived a shock that few economies could withstand, noting that the January 2007 price increases were the equivalent of a loss of five per cent of the country's GDP. That said, he criticized some of the methods that Belarus had used to survive the shock. Birmingham said that the privatization of telecom operator Velcom lacked transparency and that the USD 1.5 billion credit secured from the Russian Federation included terms, including non-economic terms, which were worrisome.

Inflation, Particularly Food Costs, a Concern

¶4. (C) Birmingham told the assembled diplomats that he expected inflation for Belarus to remain "in the low double digits" for 2008. He noted, however, that government statistics likely underestimated the impact of inflation on ordinary citizens. If the increase in food prices -- a global phenomenon -- led to reciprocal increases in wages, an inflationary spiral would result, one that could threaten Belarus' economic growth and stability.

World Bank Lending in Belarus Continues

¶5. (C) Describing World Bank lending in Belarus, Birmingham said that Bank actions were in line with the Belarus Country Strategy approved in December 2007. A USD 15 million credit package to assist in the reconstruction of objects of social infrastructure was currently awaiting parliament's approval while a USD 60 million water project was being debated by the Presidential Administration. Birmingham said that the World Bank also planned a significant set of loans to support energy efficiency.

Structural Reform Does Not Materialize

¶6. (C) Though the World Bank continued to advocate structural reforms for Belarus' economy, Birmingham noted that GOB efforts had been marginal here. Some steps had been made to improve the investment climate, such as the abolition of the "golden share" law (septel) and improvements in licensing, registration and taxation policy, but these

improvements had been small and/or symbolic at best. The state sector continued to constitute 75 to 80 per cent of GDP and this figure would remain above 50 per cent for the foreseeable future. Though Lukashenko was eager to lure FDI, it remained at roughly one per cent of GDP, and a weak force in the Belarusian economy.

EBRD - Foreign Interest in Real Estate, "Just Not Yet"
--- ---------

¶7. (C) In a separate briefing, EBRD Country Director Michael Davey and staff told emboffs that EBRD's micro-lending activity (ref A) had slipped somewhat after January 1, 2008, perhaps as a result of apprehension on the part of individual entrepreneurs faced with new hiring restrictions (ref B). The level of loans issued by the program recovered, however, in February 2008. Davey noted that the start up of the EBRD-co-owned Small Business Bank was proceeding according to plan and the bank should be licensed in April 2008, and operational in May. While the EBRD's lending activities are limited to the private sector, emboffs encouraged EBRD staff to consider U.S. Department of the Treasury prohibition of transactions with certain regime entities in logistical matters as well.

¶8. (C) Davey described a steady amount of interest from Western real estate funds in the Belarusian market. He noted that with the maturation of other markets in Central and Eastern Europe, such as Romania and Bulgaria, fund managers were increasingly looking at the Belarusian market as an option. Davey was quick to add, however, that these managers were not prepared to invest under current conditions and would wait "for something to happen" in Belarus first.

Comment

¶9. (C) We agree with Birmingham's assessment that an imminent collapse in the Belarusian economy is unlikely. That said, the regime's insistent search for new and enhanced

revenue streams is evidence that economic pressure on public finances is growing (ref B). With Russian natural gas prices up 19 per cent this year (ref C) and rates rumored to increase next quarter, it remains to be seen if Russian bilateral credits and opaque privatizations will be enough to keep the "social state" afloat.
STEWART